UNITED NATIONS

DP

Governing Council of the United Nations Development Programme

Distr.
GENERAL

DP/CP/PER/5
17 December 1991
ENGLISH
ORIGINAL: SPANISH

Special session
10-14 February 1992, New York
Item 5 of the provisional agenda

PROGRAMME PLANNING

Country and intercountry programmes and projects

FIFTH COUNTRY PROGRAMME FOR PERU

Programme period	Actual resources programmed	$
1992-1996	IPF	13 297 000
	Carry-over from the fourth programme	(2 000 000)
	Cost-sharing (programme and project)	31 000 000
	Total	44 297 000

CONTENTS

		Paragraphs	Page
I.	DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES	1 - 12	2
	A. Current socio-economic situation	1 - 10	2
	B. National development objectives and strategies ...	11 - 12	4
II.	EXTERNAL COOPERATION	13 - 20	4
	A. Role of external cooperation	13 - 15	4
	B. Aid coordination arrangements	16 - 20	5
III.	THE COUNTRY PROGRAMME	21 - 73	6
	A. Assessment of ongoing country programme	21 - 27	6
	B. Proposals for UNDP cooperation	28 - 73	7

I. DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES

A. Current socio-economic situation

1. The economic and social situation of Peru should be viewed within the context of the process of deterioration which has afflicted the country over the past 30 years and is reflected in an alarming decline in the growth of gross domestic product (GDP): 5.91 per cent of average annual growth in the 1960s, 3.73 per cent in the 1970s and -0.04 per cent in the 1980s. This situation, along with the high rate of population growth (2.7 per cent on average during the period 1960-1990), has meant that per capita GDP in 1990 is lower than it was 30 years ago ($663 in 1990, as compared with $674 in 1960, both amounts expressed in 1979 dollars). Real wages in 1990 have only one third the purchasing power they had in 1960. Inflation, which in 1960 stood at only 2.3 per cent a year, totalled 7,650 per cent a year in 1990.

2. The number of persons with adequate employment, who in 1970 accounted for 49.4 per cent of the work force, declined to a mere 18.3 per cent in 1989, while during the same period there was an increase in the levels of underemployment (from 45.9 per cent to 73.8 per cent) and unemployment (from 4.7 per cent to 7.9 per cent). In addition, the provision of social services is not widespread, as reflected in the existence of over 1.6 million illiterates (primarily rural inhabitants and women), persistent high infant mortality levels (88 per thousand live births) and the high percentage of homes lacking connections for water (51.1 per cent) and sewage (56.9 per cent). The female population is hardest hit by these conditions, especially in the low-income sectors where there is a high percentage of women heading households.

3. Peru's situation at the outset of the 1990s is illustrated by its ranking on the UNDP human development index - among the 10 Latin American countries of South America, it stands in the penultimate place. The role of women has been essential in preventing this indicator from deteriorating: women's organizations (mothers' clubs, communal kitchens, nurseries, etc.) have offered services not provided by the State. In February 1991 an epidemic of cholera broke; by June, it had affected over 223,600 people and caused the death of about 2,200 people. To date, this epidemic has caused Peru economic losses amounting to some $820 million.

4. The causes of these low levels of economic activity and low standards of living are varied and derive from the structure of the Peruvian economy and society, the development schemes implemented by various Governments and the international situation.

5. In the first instance, mention should be made of the economy, which is primarily export-oriented in nature, the industrial sector, which is highly dependent on imported inputs and is largely uninvolved in international trade, and the informal sector, which has shown significant growth.

6. With regard to development plans, various strategies have been tried, including strategies based on import substitution, which failed to yield the desired results; plans to promote the growth of the State sector in the central Government and the production sector, which did not succeed in increasing efficiency; policies favouring monopolies, which contributed to a distortion of domestic prices; and legal mechanisms, which were not conducive to growth of the agricultural base or increased investment or employment. In addition, the infrastructure required for production and services was inadequately maintained and developed.

7. In the external sector, the oil crisis in the 1970s and the international recession in the early 1980s aggravated the situation mentioned above, particularly the worsening terms of trade and the growing external debt. Moreover, during the period 1985-1990, the Government failed to meet its foreign commitments and thus cut itself off from international financial circles, precluding access to foreign credit and breaking off dialogue with external financial entities. These actions limited the possibilities of overcoming the critical economic situation even further.

8. As a result, by the early 1990s both the industrial and the agricultural production capacities of the Peruvian economy lacked a framework within which to promote their adequate development. This situation impeded entrepreneurial competitiveness, made it impossible to increase efficiency in urban and rural production units and therefore constituted a serious impediment to Peru's economic recovery. Meanwhile, the State, oversized and inefficient, imposed a heavy fiscal burden.

9. These factors are compounded by the highly distorting phenomena of the illegal cultivation of coca and its processing into coca paste, and terrorism, both of which have been part of national life in recent years. Some 183,600 hectares of land are under cultivation for coca, an enterprise involving some 300,000 farmers and having pernicious effects on the ecosystems of Peru's upper and lower forests. The commercialization of coca and its processing into coca paste bring some $800 million into the economy annually, which affects the real value of the terms of trade and distorts economic planning. Terrorist activities over the past 11 years have caused economic losses estimated at $20 billion dollars and the death of more than 23,000 people. Terrorism has led to the displacement of a significant portion of the rural population within Peru and the abandonment of farming in considerable areas of the mountains. Moreover, the State must make additional expenditures to combat drug trafficking and terrorism.

10. It may be seen from the problems indicated above that, to a large extent, their solution will require changes in the structure and functioning of the State, in social programmes, and in policies to support production and protect the environment.

B. National development objectives and strategies

11. The Government's principal objective is to reverse the negative trends that have characterized Peru's economic and social development in recent decades. To that end, the Government is implementing an adjustment programme in the short term to remove artificial prices from the economy, eliminate subsidies and the fiscal deficit, increase taxation, reduce tariffs and free the exchange rate. In the medium term, it hopes to: consolidate the stabilization process; implement a series of structural reforms in the areas of foreign trade, the financial system, insurance, the labour market and State structure; consolidate Peru's re-entry into the international financial scene; rebuild the physical and human-resources infrastructure; and implement social programmes directed at the low-income population. All this should lead to a recovery in production and the establishment of a modern economy based on the efficient use of resources.

12. It is vitally important to persist in attaining these objectives, not only to alleviate poverty, which, according to a UNDP report, afflicts some 70.7 per cent of the population, but also to ensure that the emphasis on employment and income generation ultimately contributes to Peru's economic recovery. Substantial progress in this area would be an effective weapon for successfully combating drug trafficking and terrorism.

II. EXTERNAL COOPERATION

A. Role of external cooperation

13. Within this context, the Government attaches importance to support from bilateral and multilateral sources of external cooperation in: (a) providing humanitarian assistance to alleviate acute poverty; (b) supporting the implementation of structural reforms and their consolidation in the medium term; (c) financing the re-establishment of the physical and social infrastructure, which have seriously deteriorated.

14. In 1990 the external cooperation resources secured by Peru amounted to $331,457,000, of which 78 per cent came from bilateral sources, 14 per cent from multilateral sources and 8 per cent from non-governmental organizations. The main type of assistance was technical cooperation (47 per cent of the total), followed by investment projects (24 per cent), food aid (19 per cent) and emergency and relief assistance (5 per cent). In 1990, principal bilateral donors were Italy ($115 million), the United States of America ($62 million), Japan ($21 million) and Canada ($20 million). The main multilateral donors were the United Nations system ($25 million in total, including $3.2 million from UNDP) and the European Economic Community (EEC) ($19 million). Contributions from the World Bank and the Inter-American Development Bank (IDB) have been minimal because in recent years Peru has failed to meet its obligations to those institutions. This process was reversed, however, as of the second half of 1991. Because of the donor community's commitment to the objectives set by the Government of

President Fujimori, considerable growth in cooperation from foreign sources is anticipated. Concrete signs are the establishment of a support group - consisting of the United States of America, Japan, Germany, Spain, Canada, the Andean Group, Italy, the Netherlands, Switzerland, France, Belgium, Norway and Sweden, whose contributions amount to $1.16 million - and the extension of credit by IDB.

15. In 1990, a breakdown of external cooperation by sector shows that the sectors with the largest amounts of resources were: agriculture, forestry and fisheries ($62.7 million); regional development ($55.6 million); development administration ($36.3 million); natural resources ($33.1 million); health ($31.5 million); and humanitarian assistance and relief ($23.3 million). Smaller amounts were provided for human resources development ($15.4 million); social development ($10.8 million); economic management ($3.3 million) and disaster preparedness ($1.2 million).

B. Aid coordination arrangements

16. By law, the National Planning Institute (INP) is the technical body of the Government responsible for programming, monitoring and evaluating external assistance, and it is the task of the Ministry of Foreign Affairs to authorize cooperation arrangements and agreements. External debt associated with investment projects is the responsibility of the Ministry for Economic and Financial Affairs.

17. During the fourth country programme, INP received cooperation from UNDP aimed at strengthening its General Office of International Cooperation so as to modernize and systematize project monitoring and train project personnel. Cooperation was also provided to the Ministry of Foreign Affairs in the areas of external management, training and computerization. Similarly, the Ministry for Economic and Financial Affairs received UNDP support in coordinating the economic programme and negotiating the external debt.

18. The UNDP Resident Representative acts as coordinator for the United Nations operational system, which in the case of Peru consists primarily of the World Food Programme (WFP), the United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA), the Pan-American Health Organization (PAHO), the United Nations International Drug Control Programme, the United Nations Industrial Development Organization (UNIDO) and the Food and Agriculture Organization of the United Nations (FAO).

19. UNDP, in collaboration with WFP, is optimizing the coordination of food aid to Peru by directing the executive secretariat of the committee of food donors, in which both multilateral donors (EEC) and bilateral donors (the United States of America, Italy, Spain, Japan, the Netherlands, Switzerland, Sweden, France, Germany, Belgium, Canada and the United Kingdom) participate. Donors to population activities are coordinated with the assistance of UNFPA. It is believed that with the establishment of the National Compensation and Social Development Fund (FONCODES) technical and

logistical support from UNDP will enable the Fund to provide support to the Government for the coordination at the local level of donors in this area. It is expected that UNDP should support the Government with similar coordination efforts in the field of the environment as well.

20. While Peru lacked access to the credit and technical expertise of international financial organizations, UNDP assistance enabled the country to maintain its ties to multilateral circles and facilitated the re-establishment of operational relations with those bodies.

III. THE COUNTRY PROGRAMME

A. Assessment of ongoing country programme

21. Two stages can be distinguished in the fourth cycle. The first stage corresponds to part of the term of office of the previous Government (1987 - mid-1990) and the second to that of the current Government (mid-1990 - 1991). During the first period the aim of the Peruvian Government was to direct international cooperation towards: (a) obtaining access to modern technologies and methods; (b) strengthening the State's management capacity; (c) addressing the problems of critical poverty and introducing programmes for the disadvantaged sections of the population. This was the main approach followed during the fourth country programme. During the 18 months that the present Government has been in office, the programme has placed emphasis on bolstering the State's capacity to carry out its strategy for stabilization and reform, as described in paragraphs 9 and 10.

22. During the fourth programme, UNDP had at its disposal resources totalling $15,132,436, of which $14,097,000 were attributable to IPF and $1,035,436 to cost-sharing. As at 30 August 1991, a total of $16,588,337 had been committed, leaving a deficit of $1,037,958. An advance of $2 million was made available from the fifth programme to cover the deficit and meet programme requirements for 1991.

23. During the previous Government's term, significant results were achieved with UNDP cooperation. In the field of science and technology, the telephone network was improved (revision and formulation of plans and strategies and acquisition of equipment valued at $1.5 million) and energy-saving techniques were applied (national energy-saving potential was quantified as equivalent to 7 million barrels of oil per year and 30 energy audits were carried out which identified potential net savings of 250,000 barrels of oil per year). As part of the efforts to strengthen the State's management capacity, assistance was given in the external debt negotiations, enabling Peru to maintain its ties with the International Monetary Fund (IMF), and in modernizing the Senate (establishment of a computer centre and elaboration of new organizational rules and functions). With regard to critical poverty, emergency social programmes were drawn up and implemented (both by citizens and by the Government), support was given to small industries for the establishment of an industrial park (555 sites in Villa El Salvador) and fishery activities were

promoted in 30 rural communities in the vicinity of Lake Titicaca (benefiting 1,200 families).

24. During the present Government's term, UNDP has provided support for key aspects of development policy such as restoring the country's position in the international financial community, negotiating its external debt with the Paris Club, preparing loans from IDB and devising the technical bases for State reform.

25. The main conclusions of the mid-term review of the fourth programme, undertaken in 1989, are as follows: in the face of the policy changes made by the previous Government, innovations were introduced, particularly the focusing of cooperation at the State level. The changes affected the continuity of a number of projects in progress. In some cases, projects which had been proceeding in a satisfactory manner were cancelled in order to make resources available for new projects. This led to a proliferation of projects (at one time there were more than 80), many of which called for financial support rather than technical cooperation. The pressure exerted by these additional activities served to deplete IPF resources, thereby creating the above-mentioned deficit, while at the same time making it difficult to evaluate the impact of these projects.

26. National execution arrangements were used extensively during the fourth programme, given that experience and technical skills in implementation had been acquired. However, in some cases, rather than promoting the development of new methods, procedures and technology transfers, the arrangements acted as a budget support mechanism. The fifth programme will avoid distortion of this kind so as to ensure that technical cooperation fulfils its role as a mechanism contributing to development.

27. The Government recognizes that UNDP collaboration made it possible to improve the formulation and implementation of emergency social programmes falling within the framework of economic adjustment plans, including schemes for cooperation between the State and different sectors of society. With regard to State administration, it is the Government's view that, apart from the experience gained through national execution, UNDP assistance led to improvements in the civil service, but their impact was undermined by the continual changes in the political and economic course steered by the previous Government. Nevertheless, in some cases the anticipated technical results were achieved, as described in paragraph 23.

B. Proposals for UNDP cooperation

1. Preparatory process

28. Formulation of the country programme began with the note transmitted to the Government by UNDP containing opinions and suggestions concerning the outcome of the fourth programme and possible areas of activity for the fifth programme. The Government also examined the collaborating role which UNDP had

been playing since July 1990 in activities connected with the economic and structural reform programme, where it was able to offer its speed of operation, capacity for coordination with international organizations and external experience. All these factors, together with the dialogue conducted with senior officials of ministries and other State institutions, enabled the Government to identify the areas within its strategy where UNDP could help to overcome the limitations currently hampering the achievement of its goals.

2. Strategy for UNDP cooperation

29. In order to make the most effective use of UNDP resources, the Government considers it vital that they should be programmed to exploit the Programme's comparative advantages. In the case of the fifth country programme, the Government intends to:

(a) Concentrate UNDP participation in the external cooperation sectors outlined below, where the Programme's neutrality, ability to rally wide-ranging support, access to senior decision-making levels, experience in other countries and administrative capacity - in addition to its resources - are considered important factors enabling it to make an effective contribution;

(b) Use UNDP resources and its logistical capacity in Peru to attract the participation of other bilateral and multilateral funding sources by means of a multiplier effect. The political will of the donor community to provide Peru with significant resources, as evidenced by the composition of the support group, holds promise for the future. Furthermore, the programme framework, which allows external cooperation elements to be incorporated, should facilitate such cooperation. Specific operations of this kind have already been carried out in the first two areas of concentration described in this document, using the support which UNDP was able to give the Government in its capacity as an intermediary with international financial organizations. Given the constraints international development banks may experience in the short term in making available resources for putting together structural and sectoral loans and for specific projects, the financial capacity of UNDP will serve to facilitate the preparation and approval of such operations. The proven capacities of UNDP will also play a role in the administration of technical cooperation components of loans from multilateral and bilateral financial agencies. When necessary, UNDP resources will be used in the form of revolving funds, notably in privatization programmes and in the preparation of loan proposals;

(c) Use UNDP as an instrument for attracting high-level Peruvian experts working outside the State sector and involving them in programme projects. The capacity of UNDP for decision-making and expedient disbursement of funds will also be tapped in introducing the immediate measures necessitated by the still fragile economic balance, which has been achieved, only within the framework of medium-term solutions; here the Programme's support will be coordinated with other financial sources as part of a broader process of consolidation.

30. Recognizing that the processes of economic adjustment and reintegration are in their early stages, the Government feels it would be premature to specify figures for cost-sharing in the fifth programme. These amounts will depend on the progress and readjustments made during the process in question which will influence to a large extent the attitude of the cooperation partners and the people of Peru. Accordingly, the figures shown in this document for cost-sharing should be viewed only as a guide.

3. Proposed UNDP cooperation in selected areas of concentration

31. The Government realizes that the State must take charge of the economic and social recovery process in the country. This does not mean that the State must undertake all the tasks generated by the recession of the last few years. A modern, efficient, scaled-down State is needed. This State must recover its technical and administrative capacity to restructure itself while creating conditions that will encourage society to work to achieve the objectives listed in paragraph 11. Progress in such a restructuring of the Peruvian State, economy and society requires as a first step the restructuring of the government machinery, its norms, areas of operation and functions. In this context, UNDP support is being requested in order to develop the Government's managerial capacity in the following priority areas of the national agenda: (a) support for State reform; (b) support for the employment and social development programme; (c) support for recovery of the production sector; and (d) support for the environmental and natural resource conservation policy.

(a) Support for State reform

32. National objective and/or programme requiring UNDP cooperation: Consolidating the economic stabilization and structural reform process calls for a new State operating on the basis of new relationships with the different agents of society and capable of modernizing the formulation of public policy and managing change adequately. The Government is prepared to reform the civil service and State commercial activities, a process which should, in essence, lead to a democratization, decentralization and modernization of the State, the term "modernization" being understood to mean making the State an effective tool for improving social services and, in general, its own performance in areas where it serves the common good. Bringing about this change will require: a new grouping of sectors within the Cabinet, involving fewer ministries; a reduction of public agencies, both decentralized and centralized; a new statute for the civil service; the recruitment and retention of high-level experts; a redefinition of the relationship between the central Government and regional and local governments; and the privatization of State commercial activities.

33. Proposed UNDP cooperation: Bearing in mind the fact that, during the last six months of the fourth country programme, UNDP helped prepare the reform of its executive branch, the Government is requesting assistance from

the UNDP Management Development Programme in putting together a technical team to restructure the executive branch. The team would deal with the legal, normative, coherency, coordination and instrumental aspects of the reform. This collaboration, on the order of $1 million, would be provided through a programme approach in the form of a series of specific subprojects supported by resources from the country programme and from bilateral and multilateral sources which are currently being identified.

34. While Peru normalizes its relations with the international financial community, UNDP support in managing external debt must be continued. Significant support has already been provided in the second half of 1991, when UNDP technical cooperation was instrumental both in the successful negotiations with the Paris Club and in the resumption of a dialogue with private banking circles.

35. During the latter half of 1991, plans of action were drawn up for the IDB sectoral loans for foreign trade and financial services, and the external technical cooperation required to implement those plans was identified. Bearing in mind the effective and non-reimbursable contribution made by UNDP to the financing and formulation of the action plans, the Programme is being asked to provide both financial and operational assistance in connection with the technical cooperation components of these loans.

36. Basic indicators of success will be provided by the fact that, by 1995, the instruments and measures identified in paragraph 30 will have been designed and implemented, a presidential advisory office and sectoral advisory teams will have been established and the privatization strategy will have been formulated and implemented. In addition, the Government hopes to develop, with UNDP assistance, sufficient institutional capacity in formulating investment projects to enable the State to secure the resources from IDB and the World Bank that will become available once Peru's relations with those organizations are normalized. UNDP will help to form a national advisory group, which will be indispensable in eliciting the flow of external resources needed to rebuild the physical infrastructure and promote the development of Peru's human resources. The priority given to land, air and maritime transport is particularly important in this connection.

37. The Government believes that $4,174,000 should be appropriated for this area from IPF (41 per cent of the total programmed amount), together with an additional $1 million from the Management Development Programme, cost-sharing and resources from the agreement on administrative services deriving from IDB and World Bank loans.

38. Supplementary cooperation: The Government has requested support from the major international financial and technical assistance institutions (IMF, the World Bank, IDB and UNDP) for the national professional teams in order that the instruments needed to keep the State reform programme going, particularly those of a structural nature, can be drawn up. For external debt management, the Government plans in 1991 to complement UNDP assistance with assistance from the World Bank in the form of non-reimbursable Japanese trust funds. The

Government will also continue the project for the coordination of the economic recovery and phase II of the aeronautical infrastructure development programme, which were begun during the fourth programme.

39. In September 1991, the Government reached an agreement with IDB on a sectoral credit of $425 million in the area of domestic and foreign trade which involved technical cooperation. A financial servicing loan of $200 million, also involving technical assistance, is to follow. At the same time, the Government is negotiating with the World Bank for structural adjustment loans totalling $900 million and non-reimbursable technical cooperation with Japanese trust fund resources.

40. Priority areas for immediate joint IDB/UNDP support are: customs, tax administration, and restructuring of the State banking and banking inspection systems. In these areas and others which will be identified within the context of sectoral and structural loans, the Government plans to obtain technical cooperation resources totalling at least $40 million from IDB and the World Bank over the next five years.

(b) Support for the employment and social development programme

41. National and/or programme objective requiring UNDP cooperation: The Government will focus its efforts on two target groups in society: those living in extreme poverty and coca-leaf farmers. With regard to the former, the National Compensation and Social Development Fund (FONCODES) has been established and charged with financing social investment projects aimed at stimulating employment, health, food supply and basic education, with particular emphasis on the needs of women. The Fund will enable the donor community to channel its contributions and specific initiatives in the social sphere, whether they apply to assistance or production. The Government recognizes that financial constraints mean that external donors, both bilateral and multilateral, must play a key role in supporting activities in the social sphere in the next few years.

42. In the case of the second target group, the Government is considering a crop-substitution programme in coca-producing areas aimed at providing an alternative form of development for these regions in which poverty, the weakened physical and social infrastructure and the external demand for narcotics have led to widespread coca cultivation. In the second half of 1991, the Government, with support from UNDP, began to implement its alternative development programme.

43. Given the experience of UNDP and the United Nations International Drug Control Programme in carrying out crop-substitution programmes in Peru and also in Bolivia and Colombia, substantive and operational assistance is being sought from both bodies to provide support for the Government's decision to establish an alternative development programme. This programme will also receive resources from other external sources such as the European Economic Community and the United States of America.

44. The main constraint facing the Government in putting these new institutional mechanisms into effect is the lack of high-level technical personnel to design, organize and operate the new structures.

45. Proposed UNDP cooperation: In order to establish a competent substantive and administrative organization independent of the central State structure, the Government is requesting help from UNDP in making FONCODES a multisectoral social development agency emphasizing the creation of temporary productive employment. With regard to the alternative development strategy, the Government hopes that, with help from UNDP and the United Nations Capital Development Fund (UNCDF), the Autonomous Alternative Development Authority (AADA) will become operational in 1992.

46. Indicators of success will be assessed as of the end of 1993, when FONCODES should have an adequate capacity for project monitoring, financing and evaluation and be engaged in a broad range of activities throughout the country. The projects will be designed and administered by the beneficiaries themselves - grass-roots organizations, towns, rural communities, mothers' clubs, community kitchens, etc. In addition, to help maximize the impact of these activities, FONCODES will coordinate the application of existing resources from national and international agencies active in the social sphere. With regard to AADA, indicators of success will be the Authority's becoming operational in 1992 as the technical entity responsible for implementing the alternative development strategy and specific projects aimed at reducing the amount of Peruvian land under cultivation for coca (which accounts for 60 per cent of world production) and launching a rural development process based on alternative crops. This effort would also cover industrial processing, transport and marketing facilities and the necessary physical and social infrastructure.

47. The Government is considering an appropriation for this area in the amount of $2.2 million from IPF (22 per cent of the total programmed amount) together with an additional $4.5 million from bilateral sources and multilateral financial institutions.

48. Additional cooperation: Because the problem of arrears has led certain international financial institutions to experience operational constraints during the first year of the five-year programme, the Government is asking UNDP to provide non-reimbursable support as needed for the elaboration of specific sectoral projects in such areas as education, health, annotation and housing.

49. The Government will make FONCODES operational with an initial appropriation of $25 million from the loan for marketing to be provided by IDB, supplemented with funds from other sources.

50. A significant number of agencies from the United Nations operational system are making a valuable contribution to efforts to deal with Peru's social problems. The agencies involved are WFP, UNFPA, UNICEF, the World Health Organization (WHO)/PAHO, FAO, the United Nations Development Fund for

Women (UNIFEM) and UNCDF. The contribution of these agencies to Peru totals approximately $25 million to $30 million a year. Certain operational constraints have prevented national counterpart agencies from increasing their cooperation both quantitatively and qualitatively. During the fifth cycle, the Government, with help from UNDP, will take the necessary steps to overcome these constraints.

(c) Support for recovery of the production sector

51. National objective and/or programme requiring UNDP cooperation: The Government is of the view that the deterioration in economic and social conditions in Peru over recent years has led to a depression in the production sector. Although a number of recent measures - e.g. the introduction of a unified exchange rate, the simplification of administrative procedures, the reduction of tariffs and the elimination of monopolies - benefit the production sector, other measures taken in the context of liberalization and enhanced market access have placed the import-substitution industry in a vulnerable position.

52. As a result, a large part of the industrial sector is being compelled to modernize by improving production methods and/or switching over to exports. Where modernization is concerned, the Government believes that a major effort must be made to promote industrial recovery and to adopt modern management methods and technology in order to reduce costs and improve the quality of manufactured goods. As to increasing exports, the Government will promote Peru's strategic position within the Pacific Basin, where it intends to strengthen its diplomatic presence. In tandem with these initiatives, private investment will be encouraged through legal measures guaranteeing new investments as well as through the development of free zones; foreign investment will also be encouraged under the Foreign Investment Promotion Act.

53. The foregoing does not imply any lack of attention to micro- and small enterprises, given their importance in the national economy as sources of employment. The Government will also support initiatives to upgrade quality, production and productivity in such enterprises. Further, the Government is requesting UNDP to support the establishment of a new institutional framework, at both the government and private sector levels, to act as a full partner in managing the above agenda.

54. Proposed UNDP cooperation: Given Peru's recent reintegration in the international financial system, the Government seeks UNDP support to strengthen the country's export capacity and potential for attracting foreign investment and to enhance the projection of its new image abroad. Further, in support of the production sector, UNDP assistance is being sought to carry out studies relating to infrastructure and the establishment of an appropriate framework for the development of micro- and small enterprises.

55. Basic indicators of success will be linked to the identification of export supply, its nature, necessary modifications and the most appropriate markets, with particular emphasis on the Pacific Basin, and to the

identification, negotiation, conclusion and monitoring of new foreign investment. This will enhance the projection of the country's image abroad. Other indicators of success will relate to the preparation of base studies for funding for highway reconstruction and to studies to conserve and expand energy sources.

56. In the case of micro- and small enterprises, indicators of success will be linked to the establishment of an institutional framework based on appropriate legislation and policy measures, as well as access to funding and the necessary infrastructure for the development of such enterprises. This will result in greater integration as suppliers of large enterprises, better product quality and lower prices for consumers.

57. In this area the Government envisages an IPF of $3,156,000 (31 per cent of the total programmed), to be supplemented by resources from IDB, the World Bank and the Andean Development Corporation (ADC) and the private sector.

58. Supplementary cooperation: The UNIDO/UNDP analysis and a specialized consultancy exercise have identified a range of activities involving the commercial banking system, IDB, the National Confederation of Industry, and the State aimed at supporting sectoral restructuring efforts. The Government is requesting UNDP participation in this endeavour, primarily to encourage private-sector involvement.

59. With respect to micro- and small enterprises, UNDP's experience with the Villa El Salvador industrial park concerning the organization, infrastructure design and improvement in productivity of such enterprises, as well as the experience of IDB in other countries of the region, indicate that cooperation from both institutions is needed to provide technical support and resources for tapping the sector's potential. In the context of support for agricultural activities, a loan of $2 million is being provided by the International Fund for Agricultural Development (IFAD) for small farmers in mountain regions.

60. The Government also seeks to involve the various agencies of the United Nations system dealing with investment, contractual negotiation and international trade so that, under UNDP coordination, they may reflect the country's targets in their global, regional and interregional programmes.

(d) Support for the environmental and natural resource conservation policy

61. National objective and/or programme requiring UNDP cooperation: The legal instrument for fulfilment of this commitment is the Environment and Natural Resources Code, which affirms that the State must prevent and control any environmental pollution and deterioration or depredation of natural resources that may interfere with the development of society and of all forms of life.

62. Peru offers rich ecological diversity, as its territory includes 84 of the world's 101 distinct biotopes or ecosystems. The Andean zone contains

great mineral wealth; this, and the forests' hydrocarbon reserves, constitute an economic resource that will be exploited for the benefit of the country. The Government considers that the economic development of these resources must be made compatible with proper environmental safeguards, particularly in Amazonia.

63. Proposed UNDP cooperation: The Government is seeking UNDP support in developing the technical and administrative structure required for the design and implementation of its national environmental policy. This support would be in addition to that which UNDP is already providing through the project for the implementation of the national forestry plan of action.

64. The basic indicators of success will be linked to: (a) the design and organization of the national environmental system specified in the Environment and Natural Resources Code; (b) operational programmes and/or instruments to be applied in the main areas for action identified in the Code; (c) strengthening of the capacity for formulating, supervising and evaluating international cooperation projects designed to conserve the natural environment and natural resources; and (d) incorporation, when necessary, of the concept of an ecological balance in investment projects scheduled for implementation in protected areas.

65. In this area the Government is considering an appropriation of roughly $750,000 (7 per cent of the total programmed amount).

66. Supplementary cooperation: Recognizing that UNDP, the United Nations Environment Programme (UNEP) and the World Bank are jointly responsible for the management of the Global Environment Facility and that UNDP has special responsibility for management of the technical cooperation components of the loans granted by the Facility, the Government intends to ask UNDP for the external inputs required for the development of projects to be submitted to the Facility. In addition, it is expected that UNDP will cooperate in the identification and coordination of resources provided by bilateral partners interested in environmental and natural resource conservation.

C. Assistance outside the main country programme areas

67. As the Peruvian economy is undergoing a process of stabilization and major reforms that may create demands for cooperation requiring attention in unforeseen areas of endeavour, the Government believes that the fifth programme should have a degree of flexibility that will allow it to meet such contingencies in a timely manner. For that purpose, an unprogrammed reserve of $1,017,000 (10 per cent of the total programmed amount has been earmarked).

D. Implementation and management arrangements

68. The Government considers that the basic role of UNDP during the fifth programme will be that of a privileged partner whose task will be to facilitate the consolidation of Peru's financial, economic and political rehabilitation in the international environment. To that end, the execution modalities that best correspond to the various functions outlined in paragraph 31 must be identified.

69. In the area of State management, the programme approach will be employed through the Management Development Programme. This programme will take full and coherent account of the resources provided by development banks, UNDP and other possible sources. A core project for substantive coordination is being considered in this area.

70. The Peruvian Government believes that UNDP must play an important role in supporting the preparation of the portfolio of loans from development banks. This pre-investment function should be mainly on a reimbursable basis, in the manner of a revolving fund. The same mechanism would be used in the programme of privatization of State enterprises. As regards the implementation of the technical assistance portion of the loans, the Government considers that it would be appropriate to create executing units to centralize administrative management and ensure its compatibility and to guarantee the substantive coherence of these programmes. The units' place in the institutional hierarchy would be determined according to their areas of responsibility, with possibly a single unit being provided for each thematic area.

71. In general, and in the light of extensive experience obtained during the fourth country programme, national execution will be strengthened, drawing on the country's existing management and programme implementation capabilities. The agencies of the United Nations system will be called upon to support the project and programme formulation phase and to take part in the implementation of substantive components requiring a high degree of specialization. They may also take part in evaluation exercises.

72. Given the increasingly pragmatic approach, there will be a need to establish criteria and methods for the joint assessment of each area of concentration. An ongoing dialogue at the highest level between the Government and UNDP should help to ensure that these programmes are relevant to the Government's objectives.

73. Extensive advantage will also be taken of regional and extra-regional experience by means of mechanisms such as cooperation between developing countries and participation in regional programmes complementary to the UNDP programme for Peru. The participation of non-governmental organizations will be especially significant in the socio-environmental area.

Annex I

FINANCIAL SUMMARY

I. ESTIMATED RESOURCES (IPF + cost-sharing) TAKEN INTO ACCOUNT FOR PROGRAMMING

	(Thousands of dollars)	
Carry-over from fourth cycle IPF	(2 000)	
Fifth cycle IPF	13 297	
Subtotal IPF		11 297
Project cost-sharing (Government)	13 000	
Project cost-sharing (third-party)	20 000	
Programme cost-sharing	-	
Subtotal cost-sharing		33 000
TOTAL		44 297

II. ALLOCATION OF RESOURCES (IPF + cost-sharing) BY AREA OF CONCENTRATION

(Thousands of dollars)

Area of concentration	IPF	Cost-sharing	Total	Percentage of total resources
I. State reform	4 174	20 000	24 174	54.6
II. Employment and social	2 200	5 000	7 200	16.2
III. Production sector	3 156	5 000	8 156	18.4
IV. Environment	750	3 000	3 750	8.5
Subtotal	10 280	33 000	43 280	97.7
Unprogrammed reserve	1 017		1 017	2.3
TOTAL	11 297	33 000	44 297	100.0

III. COMPLEMENTARY ASSISTANCE FROM OTHER SOURCES USED IN AREAS OF CONCENTRATION

		(Thousands of dollars)	
A.	UNDP-administered funds		
	SPR	1 500	
	UNCDF	-	
	UNSO	-	
	UNIFEM	728	
	UNRFNRE	-	
	UNFSTD	122	
	Subtotal		2 350
B.	Other United Nations resources		
	JCGP participating agencies		
	UNFPA	12 000	
	UNICEF	50 000	
	WFP	41 000	
	IFAD	-	
	Other United Nations agencies (non-UNDP-financed)	32 000	
	Global Environment Facility	15 000	
	Subtotal		150 000
	Total non-core and other United Nations resources		152 350
C.	Non-United Nations resources		50 000
	TOTAL		202 350

/...

Annex II

PROGRAMME MATRIX

Area of concentration	Areas of focus 1/					
	Poverty eradication and grass-roots participation	Environment and natural resource management	Management development	TCDC	Transfer and adaptation of technology	Women in development
Support for State reform						
Comprehensive reform of civil service			*			
Support for employment and social development programme						
Alternative development programme	*					
National Compensation and Social Development Fund	*					*
Support for production sector recovery						
Increase in exports			*			
Industrial restructuring					*	
Support for environmental conservation policy						
Environment and Natural Resource Code	*					

1/ Asterisks indicate major linkage only.